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## Financial Section

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# **McGLADREY & PULLEN, LLP**

**Certified Public Accountants and Consultants**

## **INDEPENDENT AUDITOR'S REPORT**

To the Honorable Mayor,  
Members of the City Council  
and the City Manager  
City of Salisbury  
Salisbury, North Carolina

We have audited the accompanying general purpose financial statements of the City of Salisbury, North Carolina (the "City"), as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of Downtown Salisbury, Inc. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Downtown Salisbury, Inc., is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Salisbury, North Carolina as of June 30, 2001, and the results of its operations and its cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2001, on our consideration of City of Salisbury's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and the *State Single Audit Implementation Act*, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Salisbury, North Carolina. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the data included in the introductory or statistical sections of this comprehensive annual financial report and, accordingly, we express no opinion on such data.

Greensboro, North Carolina  
September 6, 2001

**CITY OF SALISBURY, NORTH CAROLINA**  
**COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS,**  
**AND DISCRETELY PRESENTED COMPONENT UNIT**

**June 30, 2001**

	<b>Governmental Fund Types</b>			<b>Proprietary Fund Types</b>		<b>Fiduciary</b>
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>	<b>Enterprise</b>	<b>Internal Service</b>	<b>Fund Type Trust and Agency</b>
<b>ASSETS AND OTHER DEBIT</b>						
Cash and investments	\$ 5,849,399	\$ 163,363	\$ 295,471	\$ 1,500,916	\$ 285,725	\$ 348,673
Taxes receivable (net of allowance for uncollectibles)	496,666	-	-	-	-	2,474
Accounts receivable (net of allowance for uncollectibles)	616,934	84	-	2,023,976	-	-
Interest receivable	4,079	-	-	27,813	118	254
Due from other governments	1,984,835	6,361	-	42,624	-	-
Inventories	-	-	-	173,744	-	-
Prepaid items	15,245	-	-	-	-	-
Restricted assets:						
Cash and investments	-	-	-	8,489,754	-	-
Accounts receivable	-	-	-	38,449	-	-
Interest receivable	-	-	-	5,719	-	-
Due from other governments	-	-	-	2,882,460	-	-
Fixed assets	-	-	-	119,402,540	-	-
Accumulated depreciation	-	-	-	(33,983,654)	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-
Total assets and other debit	<u>\$ 8,967,158</u>	<u>\$ 169,808</u>	<u>\$ 295,471</u>	<u>\$ 100,604,341</u>	<u>\$ 285,843</u>	<u>\$ 351,401</u>

Account Groups		Totals Primary Government	Component Unit	Totals Reporting Entity	
General Fixed Assets	General Long- term Debt	(Memorandum Only)	Downtown Salisbury, Inc.	(Memorandum Only) 2001	(Memorandum Only) 2000
\$ -	\$ -	\$ 8,443,547	\$ 74,823	\$ 8,518,370	\$ 8,829,727
-	-	499,140	-	499,140	359,060
-	-	2,640,994	7,765	2,648,759	2,755,316
-	-	32,264	-	32,264	18,943
-	-	2,033,820	-	2,033,820	1,418,140
-	-	173,744	-	173,744	265,348
-	-	15,245	-	15,245	13,679
-	-	8,489,754	39,164	8,528,918	7,980,055
-	-	38,449	-	38,449	210,101
-	-	5,719	-	5,719	13,026
-	-	2,882,460	-	2,882,460	3,000,000
30,818,261	-	150,220,801	322,162	150,542,963	140,159,506
-	-	(33,983,654)	(48,806)	(34,032,460)	(31,310,528)
-	6,953,551	6,953,551	-	6,953,551	6,484,350
<u>\$ 30,818,261</u>	<u>\$ 6,953,551</u>	<u>\$ 148,445,834</u>	<u>\$ 395,108</u>	<u>\$ 148,840,942</u>	<u>\$ 140,196,723</u>

## A-1

(continued)

## CITY OF SALISBURY, NORTH CAROLINA

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS,  
AND DISCRETELY PRESENTED COMPONENT UNIT

June 30, 2001

LIABILITIES, EQUITY AND OTHER CREDIT	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 2,031,523	\$ 26,686	\$ -	\$ 555,885	\$ 332,887	\$ 5,713
Interest payable	-	-	-	220,860	-	-
Liabilities payable from restricted assets				246,425		
Current maturities of long-term debt	-	-	-	2,493,518	-	-
Deferred revenue	728,443	-	-	-	-	-
Customer deposits	-	-	-	276,439	-	-
Long-term debt	-	-	-	36,787,184	-	-
Total liabilities	<u>\$ 2,759,966</u>	<u>\$ 26,686</u>	<u>\$ -</u>	<u>\$ 40,580,311</u>	<u>\$ 332,887</u>	<u>\$ 5,713</u>
<b>EQUITY AND OTHER CREDIT</b>						
Investment in general fixed assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributed capital	-	-	-	33,514,081	-	-
Retained earnings (deficit)	-	-	-	26,509,949	(47,044)	-
Net assets:						
Unrestricted						
Temporarily restricted						
Fund balances:						
Reserved by State statute	2,605,848	6,445	-	-	-	253
Reserved for encumbrances	373,121	-	-	-	-	-
Reserved for prepaid items	15,245	-	-	-	-	-
Reserved for employees' pension benefits	-	-	-	-	-	345,435
Unreserved:						
Designated for capital equipment replacement	932,573	-	-	-	-	-
Designated for subsequent year's expenditures	-	136,677	295,471	-	-	-
Undesignated	<u>2,280,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity and other credit	<u>\$ 6,207,192</u>	<u>\$ 143,122</u>	<u>\$ 295,471</u>	<u>\$ 60,024,030</u>	<u>\$ (47,044)</u>	<u>\$ 345,688</u>
Total liabilities, equity and other credit	<u>\$ 8,967,158</u>	<u>\$ 169,808</u>	<u>\$ 295,471</u>	<u>\$ 100,604,341</u>	<u>\$ 285,843</u>	<u>\$ 351,401</u>

See Notes to Financial Statements.

Account Groups		Totals Primary Government	Component Unit	Totals Reporting Entity	
General Fixed Assets	General Long-term Debt	(Memorandum Only)	Downtown Salisbury, Inc.	(Memorandum Only) 2001	(Memorandum Only) 2000
\$ -	\$ -	\$ 2,952,694	\$ 6,129	\$ 2,958,823	\$ 2,458,189
-	-	220,860	-	220,860	205,357
		246,425		246,425	1,068,671
-	-	2,493,518	-	2,493,518	1,976,305
-	-	728,443	-	728,443	1,299,069
-	-	276,439	-	276,439	182,989
-	6,953,551	43,740,735	-	43,740,735	41,050,345
<u>\$ -</u>	<u>\$ 6,953,551</u>	<u>\$ 50,659,114</u>	<u>\$ 6,129</u>	<u>\$ 50,665,243</u>	<u>\$ 48,240,925</u>
\$ 30,818,261	\$ -	\$ 30,818,261	\$ -	\$ 30,818,261	\$ 28,473,644
-	-	33,514,081	-	33,514,081	33,514,081
-	-	26,462,905	-	26,462,905	23,592,666
		-	349,815	349,815	352,661
		-	39,164	39,164	45,215
-	-	2,612,546	-	2,612,546	1,976,081
-	-	373,121	-	373,121	360,403
-	-	15,245	-	15,245	13,679
-	-	345,435	-	345,435	294,061
-	-	932,573	-	932,573	883,595
-	-	432,148	-	432,148	215,731
-	-	2,280,405	-	2,280,405	2,233,981
<u>\$ 30,818,261</u>	<u>\$ -</u>	<u>\$ 97,786,720</u>	<u>\$ 388,979</u>	<u>\$ 98,175,699</u>	<u>\$ 91,955,798</u>
<u>\$ 30,818,261</u>	<u>\$ 6,953,551</u>	<u>\$ 148,445,834</u>	<u>\$ 395,108</u>	<u>\$ 148,840,942</u>	<u>\$ 140,196,723</u>

**CITY OF SALISBURY, NORTH CAROLINA**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES**  
**AND DISCRETELY PRESENTED COMPONENT UNIT**  
**For the Year Ended June 30, 2001**

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
REVENUES:			
Taxes	\$ 14,066,947	\$ -	\$ -
License and permits	533,554	-	-
Intergovernmental	6,040,285	272,765	-
Charges for services	1,783,086	-	-
Miscellaneous	2,220,080	346,201	29,220
Administrative charges	1,505,714	-	-
Total revenues	<u>\$ 26,149,666</u>	<u>\$ 618,966</u>	<u>\$ 29,220</u>
OTHER FINANCING SOURCES:			
Proceeds from installment purchases	\$ -	\$ -	\$ 1,000,000
Total revenues and other financing sources	<u>\$ 26,149,666</u>	<u>\$ 618,966</u>	<u>\$ 1,029,220</u>
EXPENDITURES:			
Current:			
General government	\$ 5,301,158	\$ 35,191	\$ -
Public safety	8,860,001	-	-
Transportation	3,582,241	-	139,175
Environmental protection	1,413,534	-	-
Culture and recreation	3,544,639	-	727,486
Community and economic development	1,489,678	531,958	-
Education	42,342	-	-
Debt service:			
Principal	707,050	-	-
Interest	300,193	-	-
Total expenditures	<u>\$ 25,240,836</u>	<u>\$ 567,149</u>	<u>\$ 866,661</u>
OTHER FINANCING USES:			
Operating transfers to other funds:			
Mass Transit	160,282	-	-
Total expenditures and other financing uses	<u>\$ 25,401,118</u>	<u>\$ 567,149</u>	<u>\$ 866,661</u>
NET INCREASE (DECREASE) IN FUND BALANCE	\$ 748,548	\$ 51,817	\$ 162,559
FUND BALANCE/NET ASSETS, BEGINNING	<u>5,458,644</u>	<u>91,305</u>	<u>132,912</u>
FUND BALANCE/NET ASSETS, ENDING	<u>\$ 6,207,192</u>	<u>\$ 143,122</u>	<u>\$ 295,471</u>

See Notes to Financial Statements.



<b>Totals Primary Government (Memorandum Only)</b>	<b>Downtown Salisbury, Inc.</b>	<b>Totals Reporting Entity (Memorandum Only)</b>
\$ 14,066,947	\$ 90,853	\$ 14,157,800
533,554	-	533,554
6,313,050	69,097	6,382,147
1,783,086	-	1,783,086
2,595,501	75,492	2,670,993
1,505,714	-	1,505,714
<u>\$ 26,797,852</u>	<u>\$ 235,442</u>	<u>\$ 27,033,294</u>
<u>\$ 1,000,000</u>	<u>-</u>	<u>1,000,000</u>
<u>\$ 27,797,852</u>	<u>\$ 235,442</u>	<u>\$ 28,033,294</u>
\$ 5,336,349	\$ -	\$ 5,336,349
8,860,001	-	8,860,001
3,721,416	-	3,721,416
1,413,534	-	1,413,534
4,272,125	-	4,272,125
2,021,636	244,339	2,265,975
42,342	-	42,342
707,050	-	707,050
300,193	-	300,193
<u>\$ 26,674,646</u>	<u>\$ 244,339</u>	<u>\$ 26,918,985</u>
<u>160,282</u>	<u>-</u>	<u>160,282</u>
<u>\$ 26,834,928</u>	<u>\$ 244,339</u>	<u>\$ 27,079,267</u>
\$ 962,924	\$ (8,897)	\$ 954,027
<u>5,682,861</u>	<u>397,876</u>	<u>6,080,737</u>
<u>\$ 6,645,785</u>	<u>\$ 388,979</u>	<u>\$ 7,034,764</u>

## CITY OF SALISBURY, NORTH CAROLINA

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL

## GENERAL FUND AND SPECIAL REVENUE FUND

For the Year Ended June 30, 2001

	General Fund		
	Actual	Budget	Actual Over (Under) Budget
REVENUES:			
Taxes	\$ 14,066,947	\$ 14,526,270	\$ (459,323)
License and permits	533,554	509,280	24,274
Intergovernmental	6,040,285	6,219,456	(179,171)
Charges for services	1,783,086	1,692,876	90,210
Miscellaneous	2,220,080	2,306,438	(86,358)
Administrative charges	1,505,714	1,505,714	-
Total revenues	\$ 26,149,666	\$ 26,760,034	\$ (610,368)
OTHER FINANCING SOURCES:			
Fund balance appropriated	-	855,083	(855,083)
Total revenues and other financing sources	\$ 26,149,666	\$ 27,615,117	\$ (1,465,451)
EXPENDITURES:			
Current:			
General government	\$ 5,301,158	\$ 5,758,083	\$ (456,925)
Public safety	8,860,001	9,148,428	(288,427)
Transportation	3,582,241	4,731,975	(1,149,734)
Environmental protection	1,413,534	1,417,242	(3,708)
Culture and recreation	3,544,639	3,697,887	(153,248)
Community and economic development	1,489,678	1,649,846	(160,168)
Education	42,342	42,342	-
Debt service:			
Principal	707,050	708,145	(1,095)
Interest	300,193	300,887	(694)
Total expenditures	\$ 25,240,836	\$ 27,454,835	\$ (2,213,999)
OTHER FINANCING USES:			
Operating transfers to other funds:			
Mass transit	160,282	160,282	-
Total expenditures and other financing uses	\$ 25,401,118	\$ 27,615,117	\$ (2,213,999)
NET INCREASE IN FUND BALANCE	\$ 748,548	\$ -	\$ 748,548
FUND BALANCE, BEGINNING	5,458,644		
FUND BALANCE, ENDING	\$ 6,207,192		

See Notes to Financial Statements.

Special Revenue Fund			Totals Memorandum Only		
		Actual Over (Under)			Actual Over (Under)
Actual	Budget	Budget	Actual	Budget	Budget
\$ -	\$ -	\$ -	\$ 14,066,947	\$ 14,526,270	\$ (459,323)
-	-	-	533,554	509,280	24,274
272,765	600,222	(327,457)	6,313,050	6,819,678	(506,628)
-	-	-	1,783,086	1,692,876	90,210
346,201	465,928	(119,727)	2,566,281	2,772,366	(206,085)
-	-	-	1,505,714	1,505,714	-
\$ 618,966	\$ 1,066,150	\$ (447,184)	\$ 26,768,632	\$ 27,826,184	\$ (1,057,552)
-	-	-	-	855,083	(855,083)
\$ 618,966	\$ 1,066,150	\$ (447,184)	\$ 26,768,632	\$ 28,681,267	\$ (1,912,635)
\$ 35,191	\$ 93,500	\$ (58,309)	\$ 5,336,349	\$ 5,851,583	\$ (515,234)
-	-	-	8,860,001	9,148,428	(288,427)
-	-	-	3,582,241	4,731,975	(1,149,734)
-	-	-	1,413,534	1,417,242	(3,708)
-	-	-	3,544,639	3,697,887	(153,248)
531,958	972,650	(440,692)	2,021,636	2,622,496	(600,860)
-	-	-	42,342	42,342	-
-	-	-	707,050	708,145	(1,095)
-	-	-	300,193	300,887	(694)
\$ 567,149	\$ 1,066,150	\$ (499,001)	\$ 25,807,985	\$ 28,520,985	\$ (2,713,000)
-	-	-	160,282	160,282	-
\$ 567,149	\$ 1,066,150	\$ (499,001)	\$ 25,968,267	\$ 28,681,267	\$ (2,713,000)
\$ 51,817	\$ -	\$ 51,817	800,365	-	800,365
91,305			5,549,949		
\$ 143,122			\$ 6,350,314		

**CITY OF SALISBURY, NORTH CAROLINA**  
**COMBINED STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN RETAINED EARNINGS**

**ALL PROPRIETARY FUNDS**

**For the Year Ended June 30, 2001**

	<b>Proprietary Fund Type</b>		<b>Totals (Memorandum Only)</b>	
	<b>Internal</b>			
	<b>Enterprise</b>	<b>Service</b>	<b>2001</b>	<b>2000</b>
OPERATING REVENUES:				
Charges for services	\$ 12,115,272	\$ 2,337,107	\$ 14,452,379	\$ 13,398,022
Total operating revenues	\$ 12,115,272	\$ 2,337,107	\$ 14,452,379	\$ 13,398,022
OPERATING EXPENSES:				
Management and administration	\$ 2,511,086	\$ -	\$ 2,511,086	\$ 2,751,589
Water resources	3,970,313	-	3,970,313	4,210,023
Maintenance and distribution	2,289,528	-	2,289,528	2,131,150
Depreciation	2,842,001	-	2,842,001	2,463,431
Mass transit operations	461,354	-	461,354	368,945
Employee benefits	-	2,336,239	2,336,239	1,939,530
Total operating expenses	\$ 12,074,282	\$ 2,336,239	\$ 14,410,521	\$ 13,864,668
OPERATING INCOME (LOSS)	\$ 40,990	\$ 868	\$ 41,858	\$ (466,646)
NONOPERATING REVENUES (EXPENSES):				
Interest earned on investments	\$ 692,706	\$ 10,584	\$ 703,290	\$ 662,003
Intergovernmental	307,260	-	307,260	216,129
Miscellaneous revenues	440,814	-	440,814	364,720
Interest expense	(1,771,224)	-	(1,771,224)	(1,460,390)
Net nonoperating revenues (expenses)	\$ (330,444)	\$ 10,584	\$ (319,860)	\$ (217,538)
INCOME (LOSS) BEFORE CAPITAL				
CONTRIBUTIONS AND OPERATING TRANSFERS	\$ (289,454)	\$ 11,452	\$ (278,002)	\$ (684,184)
CAPITAL CONTRIBUTIONS	\$ 2,987,959	\$ -	\$ 2,987,959	\$ -
OPERATING TRANSFERS IN:				
General Fund	160,282	-	160,282	160,282
NET INCOME (LOSS)	\$ 2,858,787	\$ 11,452	\$ 2,870,239	\$ (523,902)
RETAINED EARNINGS (DEFICIT), BEGINNING	23,651,162	(58,496)	23,592,666	24,116,568
RETAINED EARNINGS (DEFICIT), ENDING	\$ 26,509,949	\$ (47,044)	\$ 26,462,905	\$ 23,592,666

See Notes to Financial Statements.

**CITY OF SALISBURY, NORTH CAROLINA**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL PROPRIETARY FUND TYPES**  
**For the Year Ended June 30, 2001**

	<b>Proprietary Fund Type</b>		<b>Totals</b>	
	<b>(Memorandum Only)</b>			
	<b>Internal</b>			
	<b>Enterprise</b>	<b>Service</b>	<b>2001</b>	<b>2000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 40,990	\$ 868	\$ 41,858	\$ (466,646)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	2,842,001	-	2,842,001	2,463,431
Loss on disposal of fixed assets	7,933	-	7,933	2,117
Other receipts	440,814	-	440,814	370,064
Change in assets and liabilities:				
(Increase) decrease in accounts and interest receivable	178,065	193	178,258	(2,966,054)
(Increase) decrease in inventory	91,604	-	91,604	(8,718)
(Increase) decrease due from other governments	232,018	-	232,018	(111,476)
Increase (decrease) in accounts and interest payable and accrued liabilities	(1,125,267)	56,357	(1,068,910)	140,574
Increase (decrease) in customer deposits	93,450	-	93,450	(487)
Net cash provided by (used for) operating activities	<u>\$ 2,801,608</u>	<u>\$ 57,418</u>	<u>\$ 2,859,026</u>	<u>\$ (577,195)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating grants received	\$ 307,260	\$ -	\$ 307,260	\$ 216,129
Operating transfer from general fund	160,282	-	160,282	160,282
Net cash provided by noncapital financing activities	<u>\$ 467,542</u>	<u>\$ -</u>	<u>\$ 467,542</u>	<u>\$ 376,411</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from issuing general obligation bonds	\$ 3,849,091	\$ -	\$ 3,849,091	\$ 8,350,909
Capital grants received	-	-	-	630
Interest paid on general obligation bonds	(1,771,224)	-	(1,771,224)	(1,460,390)
Disposition of assets	4,607	-	4,607	-
Acquisition of capital assets	(4,071,841)	-	(4,071,841)	(10,309,981)
Principal paid on general obligation bonds	(2,484,943)	-	(2,484,943)	(1,826,305)
Capital contributed by developers	266,195	-	266,195	579,513
Net cash used for capital and related financing activities	<u>\$ (4,208,115)</u>	<u>\$ -</u>	<u>\$ (4,208,115)</u>	<u>\$ (4,665,624)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on investment securities	<u>\$ 692,706</u>	<u>\$ 10,584</u>	<u>\$ 703,290</u>	<u>\$ 656,659</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ (246,259)</u>	<u>\$ 68,002</u>	<u>\$ (178,257)</u>	<u>\$ (4,209,749)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>	<u>10,236,929</u>	<u>217,723</u>	<u>10,454,652</u>	<u>14,664,401</u>
<b>CASH AND CASH EQUIVALENTS, ENDING</b>	<u><u>\$ 9,990,670</u></u>	<u><u>\$ 285,725</u></u>	<u><u>\$ 10,276,395</u></u>	<u><u>\$ 10,454,652</u></u>

See Notes to Financial Statements.

**NON-CASH CAPITAL AND FINANCING ACTIVITIES**

As discussed in the notes to the financial statements, on October 1, 2000, the City took over the water and sewer operations of a local municipality. The takeover resulted in a non-cash acquisition of fixed assets in the amount of \$4,096,018, capital leases totaling \$1,374,254, and capital contributions from the municipality of \$2,863,121.

**CITY OF SALISBURY, NORTH CAROLINA**  
**STATEMENT OF CHANGES IN PLAN NET ASSETS**  
**PENSION TRUST FUND**  
**For the Years Ended June 30, 2001**  
**With Comparative Totals for the Year Ended June 30, 2000**

	<u>2001</u>	<u>2000</u>
ADDITIONS:		
Employer contributions	\$ 56,101	\$ 55,565
Investment income:		
Interest	<u>18,953</u>	<u>13,563</u>
Total additions	<u>\$ 75,054</u>	<u>\$ 69,128</u>
DEDUCTIONS:		
Employee benefits	<u>\$ 24,036</u>	<u>\$ 19,644</u>
Total deductions	<u>\$ 24,036</u>	<u>\$ 19,644</u>
NET INCREASE	\$ 51,018	\$ 49,484
PLAN NET ASSETS		
Beginning of year	<u>294,670</u>	<u>245,186</u>
End of year	<u><u>\$ 345,688</u></u>	<u><u>\$ 294,670</u></u>

See Notes to Financial Statements.

## CITY OF SALISBURY, NORTH CAROLINA

### NOTES TO FINANCIAL STATEMENTS

#### Note 1. Summary of Significant Accounting Policies

The accounting policies of the City of Salisbury (City) and its discretely presented component unit conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies.

##### A. Reporting Entity

The City is a municipal corporation, which is governed by an elected board of five city council members. As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit, a legally separate entity for which the City is financially accountable. The discretely presented component unit presented below is reported in a separate column in the City's financial statements in order to emphasize that it is legally separate from the City.

##### Discretely Presented Component Unit

Downtown Salisbury, Inc. was created to serve the interests of merchants and property owners in the downtown Salisbury area. The Corporation is governed by eight board members, one of whom is appointed by the City Council. The Corporation's revenue sources are almost entirely dependent on the City Council's approval of a municipal service district tax levy and a supplemental appropriation as part of the annual budget process.

Complete financial statements for the component unit may be obtained at the unit's administrative offices.

Downtown Salisbury, Inc.  
Suite 300  
100 W. Innes Street  
Salisbury, NC 28144

##### Related Organization

The Housing Authority of Salisbury's governing board is appointed entirely by the City's Mayor. However, the City has no further accountability for the Housing Authority's operations.

##### B. Basis of Presentation - Fund Accounting

The accounts of the City are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts comprised of assets, liabilities, fund equity, revenues, and expenditures or expenses as appropriate. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. The account groups are not funds, but are a reporting device used to account for certain assets and liabilities of the governmental Funds that are not recorded directly in those funds.

The City uses the following fund categories (further divided by fund type) and account groups:

Governmental Funds are used to account for the City's governmental functions. Governmental funds include the following fund types:

General Fund - The General Fund is the general operating fund of the City. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary

## NOTES TO FINANCIAL STATEMENTS

expenditures are for public safety, transportation, environmental protection, culture and recreation, community and economic development, and general government services.

**Special Revenue Fund** - Special revenue funds account for specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City maintains one Special Revenue Fund, a Community Development Fund.

**Capital Projects Fund** - Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds). North Carolina General Statutes require the establishment of a capital project fund to account for the proceeds of each bond order or order authorizing any debt instrument and for all other resources used for the capital projects financed by the bond or debt instrument proceeds.

Proprietary Funds include the following fund types:

**Enterprise Funds** - Enterprise funds are used to account for those operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The City has two Enterprise Funds: the Water and Sewer Fund and the Mass Transit Fund. For financial reporting purposes, a Water and Sewer Capital Project Fund has been consolidated with enterprise operating funds.

**Internal Service Funds** - Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. The City maintains two internal service funds, the Workers' Compensation Fund and the Employee Health Care Fund. These funds are used to account for the resources and liabilities of the self insured funds.

Fiduciary Funds account for the assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Fiduciary Funds include the following funds:

**Agency Funds** - Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are accounted for in essentially the same manner as governmental funds. Agency funds are used to account for assets the City holds on behalf of others. The City maintains two agency funds: Boards and Commissions and Municipal Service District.

**Pension trust fund** - Pension trust funds are used to account for assets of employee retirement systems administered by the City. Pension trust funds are accounted for in essentially the same manner as proprietary funds. The City maintains one pension trust fund, the Law Enforcement Officers' Separation Allowance Fund, to account for the Law Enforcement Officers' Special Separation Allowance, a single-employer public employee retirement system.

Account Groups – The General Fixed Assets Account Group is used to account for fixed assets that are not accounted for in the proprietary funds. The General Long-Term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of the proprietary funds.

### C. Measurement Focus, Basis of Accounting, and Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.



## NOTES TO FINANCIAL STATEMENTS

The Proprietary Funds and the Pension Trust Fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity of the Proprietary Funds (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements for these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. As required for periods beginning after June 15, 2000, by Statement 33 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Nonexchange Transactions*, the City has begun recognizing capital contributions as revenues in the current year, rather than as contributed capital. Pension trust funds are accounted for similarly; however, fund equity (net total assets) is recognized as being a fully reserved fund balance.

The basis of accounting determines when the revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

In accordance with North Carolina General Statutes, all funds of the City are maintained during the year using the modified accrual basis of accounting. The governmental fund types are presented in the financial statements on the same basis. Under the modified accrual basis, revenues are recognized in the accounting period when they become susceptible to accrual (i.e., when they are "measurable" and "available") to pay the liabilities of the current period. In addition, expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

The City recognizes assets of nonexchange transactions in the period when the underlying transactions occur, when an enforceable legal claim has arisen, or when all eligibility requirements are met. Revenues are recognized on the modified accrual basis of accounting when they are measurable and available. Nonexchange transactions occur when one government provides (or receives) value to (from) another party without receiving (or giving) equal or nearly equal value in return. The City considers all revenues available if they are collected within 60 days after year end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Rowan County is responsible for billing and collecting the property taxes on registered vehicles on behalf of all municipalities and special tax districts in the county, including the City of Salisbury. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the City's vehicle taxes for vehicles registered in Rowan County from March 2000 through February 2001 apply to the fiscal year ended June 30, 2001. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2001 because they are intended to finance the City's operations during the 2002 fiscal year.

Sales taxes collected and held by the State at year-end on behalf of the City are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as deferred revenues.

The City reports deferred revenue on its Combined Balance Sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant moneys are received prior to the incurrence of qualifying expenditures. In subsequent periods,

## NOTES TO FINANCIAL STATEMENTS

when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable. Exceptions to this general rule include: (1) certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources; and (2) principal and interest on general long-term debt which is recognized when due.

The Proprietary Fund and Pension Trust Fund are presented in the financial statements on the accrual basis. Under this basis, revenues are recognized in the accounting period when earned and expenses are recognized in the period when incurred. In converting the enterprise funds from the modified accrual basis to the accrual basis, the changes required are adjustments for unpaid vacation pay, depreciation, capital expenditures, payments of principal on outstanding debt, and unpaid interest. As permitted by accounting principles generally accepted in the United States of America, the City has elected to apply only applicable FASB Statements and Interpretations issued before November 30, 1989 in its accounting and reporting practices for its proprietary operations and Pension Trust Fund.

The Water and Sewer Fund reimburses the General Fund for expenditures made on its behalf in the finance department and certain other central services. The General Fund pays the Water and Sewer Fund for its normal billable charges. Both of these types of transactions are considered to be quasi-external transactions and are recorded as revenues and expenses in the appropriate funds.

### D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget ordinance is adopted for the General, Enterprise, and Special Revenue funds. All annual appropriations lapse at fiscal year end. Project ordinances are adopted for the Capital Project Fund and Enterprise Fund capital projects. These appropriations continue until the project is completed. All budgets are prepared using the modified accrual basis of accounting.

Appropriations are made at the departmental level in the General Fund and the Water and Sewer Fund. Appropriations for the Special Revenue Fund and the Mass Transit Fund are made at the fund level. All appropriations are amended as necessary by the governing board. Expenditures may not legally exceed the appropriation level as determined by the Annual Budget Ordinance. A portion of fund balance may be appropriated to balance a fund's budget. The budget amounts shown represent the budget ordinance as amended at June 30 of the budget year. All annual appropriations lapse at year-end. In the accompanying statements, appropriated fund balance is presented as an "other financing source".

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. The City Manager is authorized to transfer appropriations between functional areas; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. During the fiscal year there were thirty-two (32) supplemental appropriations.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds, and enterprise funds.

## NOTES TO FINANCIAL STATEMENTS

Budgets for the General Fund and special revenue funds are adopted on a basis consistent with GAAP. Budgets for the enterprise funds are adopted on a basis consistent with GAAP except that bond proceeds and contributed capital are treated as other financing sources, bond principal payments and additions to fixed assets are treated as expenditures, depreciation expense is not budgeted, and no accruals are made for interest expense and vacation pay.

As required by State law [G.S. 159-26(d)], the City maintains encumbrance accounts which are considered to be "budgetary accounts". Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in progress at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. These encumbrances outstanding are reported as "reserved for encumbrances" in the fund balance section of the balance sheet and will be charged against the subsequent year's budget. At June 30, 2001, \$373,121 of open purchase orders and contracts were outstanding in the General Fund.

### E. Deposits and Investments

All deposits of the City and of Downtown Salisbury, Inc. are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The City and Downtown Salisbury, Inc. may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the City and Downtown Salisbury, Inc. may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the City and Downtown Salisbury, Inc. to invest in obligations of the United States or obligations fully guaranteed, both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The City and Downtown Salisbury, Inc.'s investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at amortized cost.

At June 30, 2001, neither the City nor Downtown Salisbury, Inc. had investments that are required to be reported at fair value. Therefore, all investments are reported at amortized cost.

### F. Cash and Cash Equivalents

The City pools money from several funds to facilitate disbursement and investment to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. Downtown Salisbury, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

### G. Restricted Assets

The unexpended bond proceeds of Water and Sewer Fund serial bonds issued by the City are classified as restricted assets for the Enterprise Fund because their use is completely restricted for the purpose for which the bonds were originally issued. Customer deposits held by the City before any services are supplied are restricted to the service for which the deposit was collected.

### H. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed

## NOTES TO FINANCIAL STATEMENTS

values of January 1, 2000. As allowed by State law, the City has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the City's General Fund, ad valorem tax revenues are reported net of such discounts.

### I. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

### J. Inventories and Prepaid Items

Inventories are maintained in the enterprise funds for maintenance supplies. The inventories are valued at cost, on a first-in, first-out basis, which approximates market. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

### K. Fixed Assets

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets, consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are not capitalized because such assets are immovable and are of value only to the City. Also, the City has elected not to capitalize those interest costs which are incurred during the construction period of general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation on all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary funds balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	40 Years
Equipment	3-10 Years
Vehicles	4-10 Years

### L. Long-Term Debt

The City's long-term debt for water and sewer purposes is carried in the Water and Sewer Fund rather than in the General Long-Term Debt Account Group. The debt service requirements for the water and sewer debt are being met by water and sewer revenues, but the taxing power of the City is pledged to make these payments if water and sewer revenues should ever be insufficient. Long-term debt for other purposes is included in the General Long-Term Debt Account Group. The debt service requirements for all debt carried in the General Long-Term Debt Account Group are appropriated annually in the General Fund.

### M. Compensated Absences

The Personnel Policy of the City provides that each employee in a regular full time position shall earn annual vacation leave at the rate of 12 to 21 days per calendar year, based on years of service, with such leave being fully vested when earned. Employees may accrue up to 30 days with less than seven years service, and 45 days with seven or more years of employment. Accumulated unpaid vacation is accrued in proprietary funds (using the accrual basis of accounting). Only the current portion is accrued in governmental funds (using the modified accrual basis of accounting). At June 30, 2001, accumulated earned vacation and salary related payments amounted to \$1,239,127 for the governmental funds and \$245,832 for the proprietary funds. Of the governmental funds' liability, \$309,782 is recognized as an accrued liability in the General Fund. The

## NOTES TO FINANCIAL STATEMENTS

balance of \$929,345 is recognized in the general long-term debt account group while the liabilities of the enterprise funds are recognized as accrued liabilities in the funds themselves.

The City's Personnel Policy also provides for an unlimited accumulation of sick leave at the rate of one day per month. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City has no obligation for the accumulated sick leave until it is actually taken, no liability has been reported for unpaid accumulated sick leave.

### N. Fund Equity

Reservations or restrictions of equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance or fund equity for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of the fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved by State statute - portion of fund balance, in addition to reserves for encumbrances, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivables and due from other governments which have not been offset by deferred revenues.

Reserved for encumbrances - portion of fund balance available to pay for commitments related to purchase orders or contracts which remain unperformed at year-end.

Reserved for prepaid items - portion of total fund balance which has been expended for the benefit of future periods.

Reserved for employees' pension benefits - portion of total fund balance available for appropriation to pay retirement benefits when due.

Designated for capital equipment replacement - fund balance that has been set aside to fund the replacement of vehicles and computer equipment.

Designated for subsequent year's expenditures – portion of the total fund balance available for appropriation that has been designated for the adopted subsequent year's budget ordinance.

Undesignated – portion of total fund balance available for appropriation that is uncommitted at year-end.

### O. Totals (Memorandum Only) Columns

The total columns on the accompanying financial statements are captioned as "Totals Primary Government (Memorandum Only)" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Interfund eliminations have not been made in the aggregation of this data.

### P. Comparative Data

Comparative total data for the prior year have been presented in selected sections of the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. Comparative totals have not been included on the statements where their inclusion would not provide enhanced understanding of the City's financial position and operations or would cause the statements to be unduly complex or difficult to understand.

## NOTES TO FINANCIAL STATEMENTS

### R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### Note 2. Stewardship, Compliance and Accountability

#### A. Material Violations of Finance-Related Legal and Contractual Provisions

There were no material violations of finance-related legal and contractual provisions for the fiscal year ended June 30, 2001.

#### B. Excess of Expenditures Over Appropriations

There were no expenditures in excess of appropriated amounts for the fiscal year ended June 30, 2001.

#### C. Deficit Fund Balance or Retained Earnings of Individual Funds

The City's Mass Transit Fund had a retained earnings deficit of \$1,279,728 at June 30, 2001. The deficit is offset with \$1,490,621 of contributed capital which results in a fund equity in the Mass Transit Fund of \$210,893 at June 30, 2001.

### Note 3. Detail Notes On All Funds And Account Groups

#### A. Cash and Investments

Total cash and investments were composed as follows:

Cash on hand	\$ 2,040
Cash in demand deposits	851,145
Money market accounts	1,022,957
Certificates of Deposit	656,695
Investments	14,400,464
	<u>\$ 16,933,301</u>

All deposits of the City and Downtown Salisbury, Inc., are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the City's and component units' agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City and the component unit, these deposits are considered to be held by the City's and the components' agent in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the City or its component unit under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flow. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The City has deposits in banks utilizing both the Dedicated Method and the Pooling Method.

## NOTES TO FINANCIAL STATEMENTS

At June 30, 2001, the City's deposits had a carrying amount of \$2,530,797 and a bank balance of \$2,944,641, of which \$400,051 was covered by federal depository insurance and \$2,544,590 was collateralized by securities. The carrying amount of deposits and the bank balance for Downtown Salisbury, Inc. was \$76,338, all of which was covered by federal depository insurance. Downtown Salisbury, Inc. also held \$37,649 in a short-term money market fund which was neither insured by federal depository insurance nor collateralized by securities.

### B. Investments

The investments of the City are categorized to give an indication of the level of custodial risk assumed by the City at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. At year end, the City had no investments which would be classified as Category 1, 2 or 3. The investments in the North Carolina Capital Management Trust are exempt from risk categorization because the City does not own any identifiable securities, but is a shareholder of a percentage of the fund. At June 30, 2001, Downtown Salisbury, Inc. did not own any investments. At June 30, 2001, the City's investments were as follows:

	<u>Reported Value</u>	<u>Fair Value</u>
North Carolina Capital Management Trust, Cash Portfolio	<u>\$ 14,400,464</u>	<u>\$ 14,400,464</u>

State statutes authorize the City to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina (NC), local government or public authority in NC; savings certificates, investment certificates or shares or deposits in savings and loan associations organized in NC or federal savings and loan associations who have their principal office in NC; obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, and the United States Postal Service; the North Carolina Capital Management Trust, an SEC registered mutual fund established and administered by the State Treasurer; Certificates of Deposit issued by banks either organized under NC laws or having their principal office in NC; prime quality commercial paper and bankers acceptance bearing the highest grade of at least one nationally known rating service and not one below that by another nationally known rating service; and repurchase agreements.

### C. Ad Valorem Taxes Receivable

Property tax revenue is recognized as it becomes both measurable and available. Available, as defined, means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. No provision for an accrual of property tax was made in the accompanying financial statements because the amount was not considered to be material. The amount of the receivable is reduced by an allowance for doubtful accounts which is based upon past experience. An amount equal to the net receivable is shown as deferred revenue on the Combined Balance Sheet.

According to the North Carolina Tax Code, all real property and personal property is assessed for property tax purposes on January 1st of each year. The tax rate is set each year by the City Council at the time the final budget ordinance is adopted. Ad valorem taxes are levied on July 1, the beginning of the fiscal year except for ad valorem taxes on certain vehicles. Tax bills are initially prepared and mailed in July, and property taxes are due the first day of September each year, but can be received in the Tax Collector's Office until January 5th of the next year without interest at which time the property is subject to lien attachment. If payment is made after January 5th, the interest charge is 2 percent for the month of January and 3/4 percent every month thereafter until the bill is paid. On March 1st or as soon thereafter as practical, a certified notice of delinquent property taxes, penalties, assessments, and costs are mailed.

## NOTES TO FINANCIAL STATEMENTS

### D. Receivable - Allowances for Doubtful Accounts

The amounts shown in the combined balance sheet for receivables are net of the following allowances for doubtful accounts.

General Fund:

Allowance for uncollectible property taxes receivable \$ 235,000

Enterprise Fund:

Water and Sewer Fund

Allowance for uncollectible utility receivables 48,000

Agency Fund:

Municipal Service District Fund

Allowance for uncollectible property taxes receivable 2,000

### E. Fixed Assets

A summary of changes in general fixed assets follows:

<u>General Fixed Assets</u>	Balances June 30, 2000	Additions	Retirements	Transfers	Balances June 30, 2001
Land	\$ 3,443,540	\$ 21,500	\$ 505,321		\$ 2,959,719
Buildings and improvements	9,215,884	84,660	25,558		9,274,986
Equipment	15,708,914	1,465,245	450,391		16,723,768
Construction in progress	105,306	1,754,482	-	-	1,859,788
Total general fixed assets	<u>\$ 28,473,644</u>	<u>\$ 3,325,887</u>	<u>\$ 981,270</u>	<u>\$ -</u>	<u>\$ 30,818,261</u>
<u>Function</u>					
General government	\$ 5,308,232	\$ 397,388	\$ 181,445	\$ 225,526	\$ 5,749,701
Public safety	7,455,437	546,206	129,153	(386,916)	7,485,574
Transportation	3,806,147	361,714	128,597	601,106	4,640,370
Environmental protection	1,336,657	547	1,134	(436,085)	899,985
Culture and recreation	5,773,260	1,988,194	35,620	47,625	7,773,459
Land management and development	4,793,911	31,838	505,321	(51,256)	4,269,172
Total general fixed assets	<u>\$ 28,473,644</u>	<u>\$ 3,325,887</u>	<u>\$ 981,270</u>	<u>\$ -</u>	<u>\$ 30,818,261</u>
<u>Funding Source</u>					
Assets purchased prior to FY86					
from undetermined sources	\$ 3,015,316	\$ -	\$ 126,725	\$ -	\$ 2,888,591
General Fund	24,833,309	3,325,887	854,545	-	27,304,651
Special Revenue	625,019	-	-	-	625,019
Total general fixed assets	<u>\$ 28,473,644</u>	<u>\$ 3,325,887</u>	<u>\$ 981,270</u>	<u>\$ -</u>	<u>\$ 30,818,261</u>

Reconciliation of additions

Capital outlay expenditures	\$2,598,401
Capital Project Fund expenditures	<u>727,486</u>
	<u>\$3,325,887</u>

In the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, expenditures include current and debt service classifications, but does not include a classification for capital outlays. Capital outlay expenditures were recorded in the functions as they were budgeted.



## NOTES TO FINANCIAL STATEMENTS

A summary of enterprise fund fixed assets at June 30, 2001, follows:

	Fixed Assets	Accumulated Depreciation	Net
Water and Sewer Fund:			
Land	\$ 2,074,567	\$ -	\$ 2,074,567
Buildings and improvements	95,551,963	27,682,672	67,869,291
Equipment	6,367,667	4,924,935	1,442,732
Construction in progress	14,020,184	-	14,020,184
Total Water and Sewer Fund	<u>\$ 118,014,381</u>	<u>\$ 32,607,607</u>	<u>\$ 85,406,774</u>
Mass Transit Fund:			
Buildings and improvements	\$ 481,794	\$ 481,794	\$ -
Equipment	906,365	894,253	12,112
Total Mass Transit Fund	<u>\$ 1,388,159</u>	<u>\$ 1,376,047</u>	<u>\$ 12,112</u>
	<u>\$ 119,402,540</u>	<u>\$ 33,983,654</u>	<u>\$ 85,418,886</u>

As of June 30, 2001, Downtown Salisbury, Inc. held property and equipment with a net book value of \$273,356.

### F. Deferred Revenue

As discussed in Note 3C, property taxes receivable that are measurable but not available are recorded as taxes receivable and as deferred revenue. Likewise, prepaid property taxes or privilege licenses have not met the recognition criteria and are recorded as deferred revenue. Other deferred revenue in the General Fund represents grants and donations received for the construction of the new Salisbury Community Park and other projects that have not yet been spent for those purposes as of June 30, 2001. The balance in deferred revenue at year end, including these items, is composed of the following elements:

	General Fund
Taxes receivable, net	\$ 496,666
Prepaid property taxes	76,270
Other deferred revenue	155,507
Total deferred revenue	<u>\$ 728,443</u>

### G. Long-Term Debt

A summary of changes in long-term debt follows:

	June 30, 2000	Additions	Retirements	June 30, 2001
General long-term debt:				
General obligation bonds	\$ 3,225,000	\$ -	\$ 200,000	\$ 3,025,000
Installment purchases	2,506,256	1,000,000	507,050	2,999,206
Compensated absences	753,094	176,251	-	929,345
	<u>\$ 6,484,350</u>	<u>\$ 1,176,251</u>	<u>\$ 707,050</u>	<u>\$ 6,953,551</u>
Enterprise fund:				
General obligation bonds	\$ 18,645,000	\$ -	\$ 1,285,000	\$ 17,360,000
Revenue bonds	1,905,000	-	70,000	1,835,000
State loans	12,983,511	3,849,091	882,506	15,950,096
Capital leases	3,008,789	1,374,254	247,437	4,135,606
	<u>\$ 36,542,300</u>	<u>\$ 5,223,345</u>	<u>\$ 2,484,943</u>	<u>\$ 39,280,702</u>
Total	<u>\$ 43,026,650</u>	<u>\$ 6,399,596</u>	<u>\$ 3,191,993</u>	<u>\$ 46,234,253</u>

## NOTES TO FINANCIAL STATEMENTS

The City has general obligation bonds in the General Fund Long-Term Debt Account Group for public improvements dated January 1, 1992. The bonds were issued for improvements to the City's parks and recreation areas and for sidewalk and parking facilities. These bonds have an average interest rate of 6.10% and mature serially to 2002.

In November 1993, the City issued \$373,000 general obligation bonds. The bonds were designated for improvements to the City's downtown parking facilities and for construction of recreation facilities. These bonds were issued at an average interest rate of 4.846% and mature serially to 2004.

The City issued \$355,000 general obligation bonds in November 1995 for public parks and recreation facilities improvements. The bonds were issued at an average interest rate of 5.2756% and mature serially to 2006.

In January 1998, the City issued \$3,000,000 general obligation bonds. The bonds were designated for parks and recreation facilities. The bonds were issued at an average interest rate of 4.7718% and mature serially to 2017.

The City has entered into various installment purchase contracts to finance the acquisition and renovation of various equipment and facilities. These installment purchase contracts are outlined as follows:

Installment purchase contract for capital improvements and acquisition of facilities from Wachovia Bank and Trust, dated December 20, 1996, payable in 14 semi-annual installments of \$149,223 at an effective interest rate of 4.91%.

Installment purchase contract for capital improvements and facilities renovations from BB&T Leasing Corporation, dated December 29, 1999, payable in twenty semi-annual installments of \$63,332 at an effective interest rate of 4.73%.

Installment purchase contract of fire truck from First Union National Bank, dated June 29, 2000, payable in eight semi-annual installments of \$83,447.92 at an effective interest rate of 5.20%

Installment purchase contract for construction and capital improvements of facilities from Bank of America, dated December 22, 2000, payable in thirty semi-annual installments consisting of \$33,333 principal plus interest at an effective rate of 5.25%.

Equipment and facilities acquired with the proceeds from these installment purchases contracts have been recorded in the General Fixed Assets Account Group.

Future maturities of general long-term debt, excluding accrued vacation pay, are as follows:

Year Ending June 30,	General Obligation Bonds		Installment Purchases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 200,000	\$ 146,092	\$ 565,227	\$ 144,015	\$ 765,227	\$ 290,107
2003	180,000	136,020	590,279	115,415	770,279	251,435
2004	180,000	127,210	469,889	85,610	649,889	212,820
2005	200,000	118,400	165,771	67,484	365,771	185,884
2006	190,000	108,650	170,514	59,192	360,514	167,842
Thereafter	2,075,000	568,951	1,037,526	207,831	3,112,526	776,782
	<u>\$ 3,025,000</u>	<u>\$ 1,205,323</u>	<u>\$ 2,999,206</u>	<u>\$ 679,547</u>	<u>\$ 6,024,206</u>	<u>\$ 1,884,870</u>

The general obligation bonds and installment purchase contracts are being retired by the resources of the General Fund. The general obligation bonds bear interest, payable semiannually, and are collateralized by the full faith, credit, and taxing power of the City. The installment purchases are collateralized by the equipment and facilities on which the lease is given.

## NOTES TO FINANCIAL STATEMENTS

The long-term debt of the City's Enterprise Funds includes bonds issued where the City pledges income derived from the Enterprise Fund acquiring or constructing assets with the proceeds to pay debt service. In January 1998, the City issued \$2,040,000 revenue bonds to finance improvements to the City's sewer system. Revenue bonds outstanding as of June 30, 2001 totaled \$1,835,000 and consisted only of the January 1998 issue. The Revenue Bond General Trust Indenture requires that the City must maintain certain debt covenants relating to reporting requirements, annual budgets, and minimum utility funds revenues. Net revenues available for revenue bond debt service can not be less than one hundred twenty percent (120%) of the long-term debt service requirement for parity indebtedness. The calculations of the City's revenue bond coverage for the last three years are as follows:

Fiscal Year	Gross Revenues (1)	Operating Expenditures(2)	Net Revenues Available for Revenue Bond Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
1999	\$ 12,182,228	\$ 8,536,338	\$ 3,645,890	\$ 342,506	\$ 372,041	\$ 714,547	510.24%
2000	12,050,171	8,968,739	3,081,432	337,506	354,327	691,833	445.40%
2001	12,715,931	8,635,605	4,080,326	952,506	577,160	1,529,666	266.75%

(1) Total operating revenues plus investment earnings exclusive of revenue bond investment earnings.

(2) Total operating expenses exclusive of depreciation.

(3) Parity debt includes revenue bonds and N. C. State Clean Water Bonds only.

Enterprise fund long-term debt (excluding capital leases) also includes the following general obligation bond issues of the Water and Sewer Fund:

	Balance June 30, 2001
Sanitary Sewer Series 1989, average rate of 6.5245% issued July 1989, maturing serially to 2008	\$ 675,000
Sanitary Sewer Series 1992, average rate of 6.10%, issued January 1992, maturing serially to 2011	650,000
Refunding Bonds, Series 1993, average rate of 4.186%, issued November 1993, maturing serially to 2008	1,935,000
Water and Sewer Bonds, Series 1995, average rate of 5.2756%, issued November 1995, maturing serially to 2015	10,900,000
Water Bonds, Series 1997, average rate of 4.74%, issued December 1997, maturing serially to 2008	475,000
Water Bonds, Series 1998, average rate of 4.4%, issued June 1998, maturing serially to 2017	<u>2,725,000</u>
	<u>\$ 17,360,000</u>

The general obligation bonds were issued to finance the construction of facilities utilized in the operations of the water and sewer systems. The general obligation bonds are being retired by the resources of the Water and Sewer Fund. The general obligation bonds bear interest, payable semiannually, and are collateralized by the full faith, credit, and taxing power of the City.

## NOTES TO FINANCIAL STATEMENTS

Enterprise fund long-term debt (excluding capital leases) includes the following State Clean Water Bond Loans in the Water and Sewer Fund:

	Balance June 30, 2001
State Bond Loan, average rate of 5.3%, issued November 1997, maturing serially to 2017	\$ 4,000,000
State Bond Loan, average rate of 5.3%, issued November 1997, maturing serially to 2017	360,096
State Bond Loan, average rate of 2.6%, issued November 1999, maturing serially to 2019	2,850,000
State Bond Loan, average rate of 2.6%, issued June 2000, maturing serially to 2020	8,740,000
	<u>\$ 15,950,096</u>

The City has entered into various agreements to lease certain water and sewer distribution systems. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Interest rates on these agreements range from 3.385% to 5.6%. The City has recorded water and sewer assets related to these leases at their fair market value of \$7,898,494. The future minimum lease payments at June 30, 2001 total \$5,579,489, including \$1,443,883 of interest. Upon completion of these lease payments the City will take ownership of the related assets.

Future maturities of enterprise fund long-term debt are as follows:

Year Ending June 30,	Bonds		Capital Leases		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 2,232,506	\$ 1,503,143	\$ 261,012	\$ 168,343	\$ 2,493,518	\$ 1,671,486
2003	2,232,506	1,405,762	263,312	158,108	2,495,818	1,563,870
2004	2,232,506	1,308,347	269,676	147,763	2,502,182	1,456,110
2005	2,242,506	1,210,899	271,109	137,071	2,513,615	1,347,970
2006	2,247,506	1,112,892	270,612	126,307	2,518,118	1,239,199
Thereafter	23,957,566	5,954,861	2,799,885	706,291	26,757,451	6,661,152
	<u>\$ 35,145,096</u>	<u>\$ 12,495,904</u>	<u>\$ 4,135,606</u>	<u>\$ 1,443,883</u>	<u>\$ 39,280,702</u>	<u>\$ 13,939,787</u>

The City had a legal debt margin of \$118,126,686 at June 30, 2001.

### H. Pension Cost

#### 1. Local Government Employees' Retirement System

*Plan Description.* The City of Salisbury contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Government Employees Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the City, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.80% and 4.49%, respectively, of annual covered payroll. The contribution requirements of members and of the City of

## NOTES TO FINANCIAL STATEMENTS

Salisbury are established and may be amended by the North Carolina General Assembly. The City's contributions to LGERS for the years ended June 30, 2001, 2000, and 1999 were \$672,596, \$646,814, and \$584,458, respectively. The contributions made by the City equaled the required contributions for each year.

### 2. Law Enforcement Officers' Special Separation Allowance

#### A. Plan Description

The City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the North Carolina General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the General Assembly. The Separation Allowance is reported as a pension trust fund in the City's Comprehensive Annual Financial Report, which includes all required supplementary information related to the plan.

All full-time City law enforcement officers are covered by the Separation Allowance. At December 31, 2000, the Separation Allowance's membership consisted of:

Retirees and beneficiaries currently receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>84</u>
Total	<u>86</u>

#### B. Summary of Significant Accounting Policies

*Basis of Accounting.* Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments.* As noted in Note 1F. previously, cash and investments are held in a single central depository with each fund owning a pro-rata share. Therefore, cash and investments are essentially demand deposits and are considered to be cash and cash equivalents. Investments are reported at cost which approximates market.

#### C. Contributions

North Carolina statutes require the City to provide these retirement benefits. The City has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the City contributed \$56,101, or 1.96% of annual covered payroll. There were no contributions made by employees. The City's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are paid by the General Fund.

The annual required contribution for the current year was determined as part of the December 31, 2000 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 5.9% to 9.8% per year. Item (b) included an inflation adjustment of 3.75%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was

## NOTES TO FINANCIAL STATEMENTS

determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2000 was 30 years.

### D. Annual Pension Cost and Net Pension Asset

The City's annual pension cost and net pension asset to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 47,368
Interest on net pension obligation	(1,872)
Adjustment to annual required contribution	<u>2,402</u>
Annual pension cost	\$ 47,898
Contributions made	<u>56,101</u>
Increase in net pension asset	\$ 8,203
Net pension asset beginning of year	<u>25,823</u>
Net pension asset end of year	<u><u>\$ 34,026</u></u>

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
6/30/2001	\$47,898	117.13%	\$34,026
6/30/2000	50,109	110.89%	25,823
6/30/1999	51,789	94.38%	20,267

### 3. Supplemental Retirement Income Plan for Law Enforcement Officers

*Plan Description:* The City contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

*Funding Policy:* Article 12E of G.S. Chapter 143 requires that the City contribute each month an amount equal to 5 percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2001 were \$184,999, which consisted of \$142,986 from the City and \$42,013 from the law enforcement officers.

### 4. Firemen's and Rescue Squad Workers' Pension Fund

*Plan Description:* The State of North Carolina contributes, on behalf of the City of Salisbury, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the fund. That report may be obtained by writing to the Office of the State Controller, 3512 Bush Street, Raleigh, North Carolina 27609, or by calling (919) 981-5454.

*Funding Policy:* Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The City does not contribute to the Fund.

## NOTES TO FINANCIAL STATEMENTS

Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

For the fiscal year ended June 30, 2001, the City has recognized on-behalf payments for pension contributions made by the state as a revenue and an expenditure of \$16,224 for the 66 employed firemen who perform firefighting duties for the City's fire department.

### I. Other Postemployment Benefits

In addition to providing pension benefits, the City of Salisbury has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer State-administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to his/her death, but the benefits may not exceed \$20,000. All death benefit payments are made from the Death Benefit Plan. The City has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the City, the City does not determine the number of eligible participants. For the fiscal year ended June 30, 2001, the City made contributions to the State for death benefits of \$18,742. The City's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.13% and 0.14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

### J. Contributed Capital

Grants, entitlement, and shared revenues restricted for the acquisition of or construction of capital assets were recorded as contributed capital prior to the implementation of GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As required by GASB Statement 33, the City has begun recognizing capital contributions from external sources as revenue in the current year rather than as contributed capital. The following is a summary of changes in contributed capital for the year ended June 30, 2001:

	Water and Sewer Fund	Mass Transit Fund	Total Enterprise Fund
Beginning balance: July 1, 2001 and Ending balance: June 30, 2000	<u>\$ 32,023,460</u>	<u>\$ 1,490,621</u>	<u>\$ 33,514,081</u>

On October 1, 2000, the Town of Spencer contributed the operations and assets of its water and sewer utilities to the City. The excess of the fair value of the assets contributed over the value of liabilities assumed was \$2,863,121 and was recognized as capital contributions in accordance with GASB Statement 33.

### K. Water and Sewer Fund - Restricted Assets

The City has combined amounts restricted for capital projects and amounts for which the nature of the transaction generated a related liability with amounts available for general operating use in the statements for the Water and Sewer Fund. These amounts are not available to meet obligations arising from the operating activities of the fund. The amounts listed in the table below are restricted by capital project ordinance, by covenant related to the general obligation bond issue, and/or by the external source of the originating transaction.

## NOTES TO FINANCIAL STATEMENTS

A summary of these assets and related liabilities restricted for specific purposes at June 30, 2001, follows:

Cash and investments	\$ 8,489,754
Accounts receivable	38,449
Interest receivable	5,719
Due from other governments	2,882,460
Accounts payable	246,425
Customer deposits	276,439

### Note 4. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. This pool provides general liability coverage to \$1,000,000 as well as \$1,000,000 for automobile liability. In addition, the City maintains replacement cost insurance on personal property, including boiler and machinery, in an amount of \$72,596,843. Other replacement cost property insurance includes coverage for electronic equipment in the amount of \$1,550,362, automobile physical damage insurance for \$7,197,502, and impounded vehicles for \$100,000. The City also provides coverage for employee dishonesty in the amount of \$100,000 and fidelity insurance of the Finance Director's office for \$100,000. The pool is reinsured through commercial companies for single occurrence claims against property, general liability, and auto liability in excess of \$300,000.

The City also maintains commercial liability insurance of \$1,000,000 for its public officials and \$1,000,000 for law enforcement professional liability. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

In addition, the City currently self-insures an employee health benefits program through a third party administrator. However, the City's exposure is limited to \$60,000 per individual and to 120% of estimated annual aggregate claims. The City also carries an excess workers' compensation policy through a commercial insurer in the amount of \$1,000,000. The City retains a \$300,000 deductible for this coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The liability for claims is reported in the current liabilities of the internal service funds. Changes in the balances of claims liabilities during the past three years are as follows:

	<u>Year ended</u> <u>June 30, 1999</u>	<u>Year ended</u> <u>June 30, 2000</u>	<u>Year ended</u> <u>June 30, 2001</u>
Unpaid claims, beginning of fiscal year	\$ 261,614	\$ 285,726	\$ 275,337
Incurred claims (including IBNRs)	1,942,916	1,902,494	2,212,357
Claim payments	<u>(1,918,804)</u>	<u>(1,912,883)</u>	<u>(2,162,318)</u>
Unpaid claims, end of fiscal year	<u>\$ 285,726</u>	<u>\$ 275,337</u>	<u>\$ 325,376</u>

An independent review of the City's various risk management activities is conducted annually, and coverage is adjusted accordingly as needed. There have been no reductions in insurance coverage from the prior year.

Downtown Salisbury, Inc., is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The unit has commercial insurance covering property, general liability, and employee health coverage. Claims have not exceeded coverage in any of the past three years.



## NOTES TO FINANCIAL STATEMENTS

### Note 5. Enterprise Funds - Segment Information

The City maintains two enterprise funds that provide water, sewer, and mass transit services. Segment information for the year ended June 30, 2001 is as follows:

	Water and Sewer Fund	Mass Transit Fund	Totals
Operating revenues	\$ 12,037,258	\$ 78,014	\$ 12,115,272
Depreciation expense	2,810,729	31,272	2,842,001
Operating income (loss)	590,924	(549,934)	40,990
Operating grants	-	307,260	307,260
Operating transfers in	-	160,282	160,282
Net income (loss)	2,913,565	(54,778)	2,858,787
Current capital contributions	2,987,959	-	2,987,959
Total assets	100,349,915	254,426	100,604,341
Fixed assets, net	85,406,774	12,112	85,418,886
Fixed asset additions	8,166,359	1,500	8,167,859
Net working capital	23,590	198,781	222,371
Long-term debt	39,280,702	-	39,280,702
Retained earnings (deficit)	27,789,677	(1,279,728)	26,509,949
Contributed capital	32,023,460	1,490,621	33,514,081
Total equity	59,813,137	210,893	60,024,030

### Note 6. Joint Venture

The City and the members of the City's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints an additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The City obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the City's fire department by the board of trustees. During the fiscal year ended June 30, 2001, the City reported revenues and expenditures for the payments of \$57,968 made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2001. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, NC 27828.

### Note 7. Contingencies, Commitments and Subsequent Events

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

At June 30, 2001, the City has \$261,092 in uncompleted construction contracts in the General Fund that are included in the reservation of fund balance for encumbrances. In addition, the City has \$1,819,392 in uncompleted construction contracts in the Water and Sewer Fund.

### Note 8. Pending GASB Statement

At June 30, 2001, the Governmental Accounting Standards Board (GASB) had issued a statement not yet implemented by the City. The statement that will impact the City is GASB Statement No. 34. GASB Statement No. 34, *Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 2000, will be effective for the City for the year ending June 30, 2003. This Statement imposes new standards of financial reporting. Financial managers will be required to provide a management's

## **NOTES TO FINANCIAL STATEMENTS**

discussion and analysis (MD&A) that gives readers an analysis of the City's overall financial position and results of the previous year's operations. The titles and formats of the financial statements will change significantly. Governmental units will continue to provide budgetary information in their reports; however, under this Statement, they will be required to provide the government's original budget as well as the final budget and actual results. Management has not yet completed its assessment of this Statement; however, it will have a significant effect on the overall financial statement presentation.

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# Required Supplemental Financial Data

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## CITY OF SALISBURY, NORTH CAROLINA

## LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

## REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF FUNDING PROGRESS

Last Six Fiscal Years

(2) Actuarial Accrued Liability (AAL) Projected Unit Credit							(3) Unfunded AAL (UAAL) (2) - (1)		(4) Annual Covered Payroll		UAAL as a Percentage of Covered Payroll (3) / (4)	
Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets											
2000	\$ 315,640	\$ 862,184	\$ 546,544	36.61%	\$ 2,793,421	19.57%						
1999	266,673	456,933	190,260	58.36%	2,434,327	7.82%						
1998	222,945	448,747	225,802	49.68%	2,404,793	9.39%						
1997	179,257	436,656	257,399	41.05%	2,391,215	10.76%						
1996	141,175	380,118	238,943	37.14%	2,169,850	11.01%						
1995	110,262	352,314	242,052	31.30%	1,998,555	12.11%						

## CITY OF SALISBURY, NORTH CAROLINA

## LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE

## REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Six Fiscal Years

<b>Fiscal Year Ended June 30,</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2001	\$ 47,368	118%
2000	49,733	112
1999	51,401	104
1998	46,376	115
1997	43,984	100
1996	39,685	100

**Notes to the Required Schedules:**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	12/31/2000
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	30 years
Asset valuation method	Market value
Actuarial assumptions	
Investment rate of return*	7.25%
Projected salary increases*	5.9% - 9.8%
* Includes inflation at	3.75%
Cost of living adjustments	N/A